



Briefing note

To : Finance & Corporate Services Scrutiny Board (1)

Date: 3rd November 2014

Subject: Ethical Investment

1 Purpose of the Note

Following consideration the pension fund and its forecast impact on the City Council at its 15th September meeting, the Finance and Corporate Services Scrutiny Board sought further information in relation to ethical investment and any examples of ethical investment policies adopted by local authorities.

The note's conclusion is that the Council's Treasury Management activity involves investment in financial institutions rather than direct investment in types of companies. This means the adoption of an ethical investment strategy would have no practical impact on the Council's investing activities.

2 Other Local Authorities

2.1 References to consideration of ethical investment policies can be found for a number of local authorities and other public sector bodies. These examples take different forms and several of them are outlined below.

Manchester City Council

2.2 Manchester's Finance Scrutiny Committee received a report on 6th February 2014 entitled Annual Investment Strategy 2014-15: Ethical Considerations. The report's conclusions included assessments that:

- the Council's current investment strategy reflects the concerns regarding security of investments held since the financial crash;
- any ethical considerations would need to be applied to the counterparty list after taking into account security and liquidity issues;
- the Council's current counterparty list is, due to the high credit quality criteria used by the Council, very small, and therefore does not encompass those organisations which promote themselves as ethical;
- it is difficult to gain an objective assessment of the ethical standing of a potential counterparty particularly to tight timescales;

- where funds or instruments exist that promote themselves as ethical, they do not meet the Council's creditworthiness criteria so the Council would have to accept a higher level of risk on the investments than allowed for in the Investment Strategy;
 - that ethical considerations are difficult to evaluate subjectively.
- 2.3 The outcome of the meeting was that the committee agreed with the principle of prioritising investments that maximise social good but recognised the need to ensure maximum returns on investment as well, so emphasised that a balance was desirable. Members also noted there were particular legal restrictions associated with the Greater Manchester Pension Fund investments. The Committee agreed to revisit this in the new municipal year.

Oxford City Council

- 2.4 In July 2014 Oxford Council adopted the following motion.

"The Council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the Council's mission and values. This would include, inter alia, avoiding direct investment in institutions with material links to:

- human rights abuse (e.g. child labour, political oppression)
- environmentally harmful activities (e.g. pollution, destruction of habitat, fossil fuels)
- socially harmful activities (e.g. tobacco, gambling)

These principles will be applied to all investments made by the Council."

- 2.5 In reality, it is unlikely that Oxford Council's Treasury Management activity involves any direct investments in businesses other than financial institutions and none of these institutions will have core activities that are contrary to the stated values because they will be centred around financial borrowing, investments and services.

Brighton & Hove City Council

- 2.6 Brighton & Hove Council include the following statement within their Treasury Management Strategy:

The Council has approved the following ethical investment statement that will apply to all cash investments made by, or on behalf of, the Council

"Brighton & Hove City Council, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in as well as those we are considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply council deposits in a socially responsible manner."

Counterparties shall be advised of the above statement each and every time a deposit is placed with them.

3 Other Ethical Investment Strategies

- 3.1 Two of the non local government organisations that operate high profile ethical investment policies are the Church of England and the Co-operative Bank. Both organisations have a range of ethical investment policies covering different elements of ethical investment such as humanitarian and environmental considerations. However, these policies and the wider strategies that encompass them are focussed on direct investment in individual companies. They do not cover the type of treasury management activity focused on financial institutions and money market funds operated by councils, including Coventry. Therefore these high-profile strategies are not appropriate for Coventry's local circumstances.

4 Treasury Management Advisors

- 4.1 The Council's Treasury Management Advisors, Arlingclose have provided the following advice with regard to Ethical Investment.

Ethical investing is not usually seen as relevant for treasury management activity. Treasury management is focused on ensuring that the Council's cash is secure and available to meet necessary obligations – the most ethical institutions/investments may not be the most secure or appropriate to meet these requirements. The function needs flexibility to react quickly to changing economic/market events – an ethical investment policy within the approved Treasury Management Strategy may restrict the Council's attempts at risk management. Ethical investment is primarily focused on changing the behaviour of companies – the Council is not in a position to do this in its limited treasury management operations. The Council has a duty to maximise returns within the approved risk management framework – this may not always sit well with ethical investing.

5 Conclusions

- 5.1 A number of Councils have considered the issue of ethical investments. The reality is that the issue has either been delayed or has been the subject of statements of policy that, in Coventry's case, would have no impact on the day to day Treasury Management activity.
- 5.2 Coventry's treasury activity is focussed on investments with financial institutions or in financial instruments not in companies whose core activity might be deemed to be unethical in terms of the broad criteria set by various Ethical Investment Policies. Institutions with high profile Ethical Investment policies (e.g. the Co-operative Bank and the Church of England) are generally applying these to their direct investment in non-financial sector companies, typically but not exclusively some manufacturing and energy companies. In the local government sector, unless their investment activities are markedly different to Coventry's, those local authorities that have established statements in relation to ethical investment will not use these to impact upon their treasury activity.
- 5.3 The Council's Treasury Management Advisors do not advise the use of an Ethical Investment Policy for Local Authority treasury investments.

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